Innovative IC Framework in the Non-Profit Sector

Maurizio Rija, Department of Business Administration, University of Calabria, Arcavacata di Rende (CS), Italy
Giovanni Bronzetti, Department of Business Administration, University of Calabria, Arcavacata di Rende (CS), Italy

ABSTRACT

The importance of intellectual capital in the non-profit sector generates the need to measure its role in the value creation process. The purpose of the paper is to study the application of intellectual capital within the non-profit sector, by turning attention to resources such as: knowledge, experience, and skills. Organizations, which are able to increase the knowledge of their staff and transform this knowledge into skills to improve services, can easily meet users' needs and, thereby, become competitive. This contribution proposes to study how people’s knowledge can contribute to increasing social value, which is the non-profit organization’s aim. Furthermore, the goal is to demonstrate how collaboration between staff and volunteers is essential to professional services. Finally, the research proposes a conceptual framework in which intellectual capital helps in defining the strategic issues, which non-profit organizations must tackle in order to achieve their social programs.

Keywords: IC Framework, Intellectual Capital, Non-Profit Sector, Performance, Strategic Management, Value Creation

INTRODUCTION

In recent years, the importance of intangibles in the process of value creation has emerged with ever greater emphasis. Intangibles, as a resource without physical substance, are a key driver underpinning business competitiveness.

The definition of intangibles is still an open question (Zambon, 2004; Marr et al., 2004). We often speak about intangibles, intangible assets or, even, intellectual capital. The importance of intangible assets, including intellectual capital, i.e., the body of knowledge, organizational and interpersonal skills, has created the need for the non-profit organizations (NPOs) to assess their role in the process of value creation. In fact, in contrast to what happens in other sectors, where everything is measured quantitatively, in the non-profit sector the importance of communicating and demonstrating to stakeholders the quality of services provided, compared to the offer of other for-profit public or private subjects, is crucial to generate social value (Stewart, 1997; Benz, 2005; Drucker, 2006). “Social actions” have become really important, both in terms of efficiency and effectiveness. As for efficiency, reporting on the relationship
between the achievement of results and the use of resources has become necessary to ensure the survival of the non-profit organization over time. Testing the effectiveness (i.e., the ratio between results and expected outcomes) is more complicated: effectiveness involves an evaluation of the quality of the organization’s work, and this is not achieved simply by considering the economic value of resources exploited (Baruch & Ramalho, 2006).

The services provided by NPOs are generally intangible and have a significant relational content (Fiorentini, 1997); they are characterized by close interaction with the final user and hence are difficult to standardize. Therefore, any reliable assessment of their quality must take account of the relational component and especially the close relationship between the provider (employee or volunteer) and the client (Cafferata, 2000). In many cases, in these relationships, the parties involved (users/volunteers/employees) do not interact in opposition, but in concert to achieve a common goal (Bennett & Barkensjo, 2005).

The quality of an NPO depends, above all, on the skills of its operators (in most cases volunteers), in particular on their ability to combine and exploit the experience and knowledge present in their organization. Knowledge becomes a major production factor (with land, job and capital), essential for any organization (Azzariti & Mazzon, 2005).

Regardless of the sector it belongs to, every NPO must be able to develop, enhance and manage the knowledge resource, in other words the creation, exchange and sharing of ideas and values; knowledge, defined as such, becomes a key component of the NPOs competitive advantage (Hustinx & Lammertyn, 2000). The knowledge and skills possessed by the NPO and, therefore, by the NPOs representatives are of crucial importance and NPOs that can increase the knowledge of its collaborators and to turn this knowledge into skills, in terms of improved services, are in a better position to meet the needs of their users and, therefore, to become more competitive. In this sense, workers are increasingly seen as knowledge workers. The goal of knowledge management is actually practical: to improve organizational capabilities through better use of the organization’s individual and collective knowledge resources (Probst Gilbert, 1998).

This paper, through a conceptual framework, aims to study how knowledge resources help to provide the NPO with competitive advantages and, in particular, the role played by knowledge management in creating business value.

### EVOLUTION OF THE THIRD SECTOR

The third sector includes the new model of Welfare State based on public service, but increasingly characterized by important private initiatives.

The term “third” (as well as “non-profit” or “tertiary”) sector, actually houses a number of large and different realities that range from healthcare, to education, culture, charity, international cooperation, and so on (see Table 1 in the Appendix). The reference frame is therefore very broad and diverse and it is characterized, at least in part, by a fragmented legal framework whose only common denominator is the absence of the profit motive as a driving force (Cohen, 2007). The relegation of profit does not mean that a non-profit organization cannot make a profit, but it means that a limitation is imposed on it. In fact, an NPO cannot distribute revenues to shareholders, but rather re-invest any gains in social purposes.

One of the main reasons leading to the growth of the tertiary sector is undoubtedly linked to the crisis of the Welfare State (Malerba, 1994). In many Countries the central government, under the pressure of rising costs and financial problems, has not been able to provide citizens with assistance in key areas such as
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